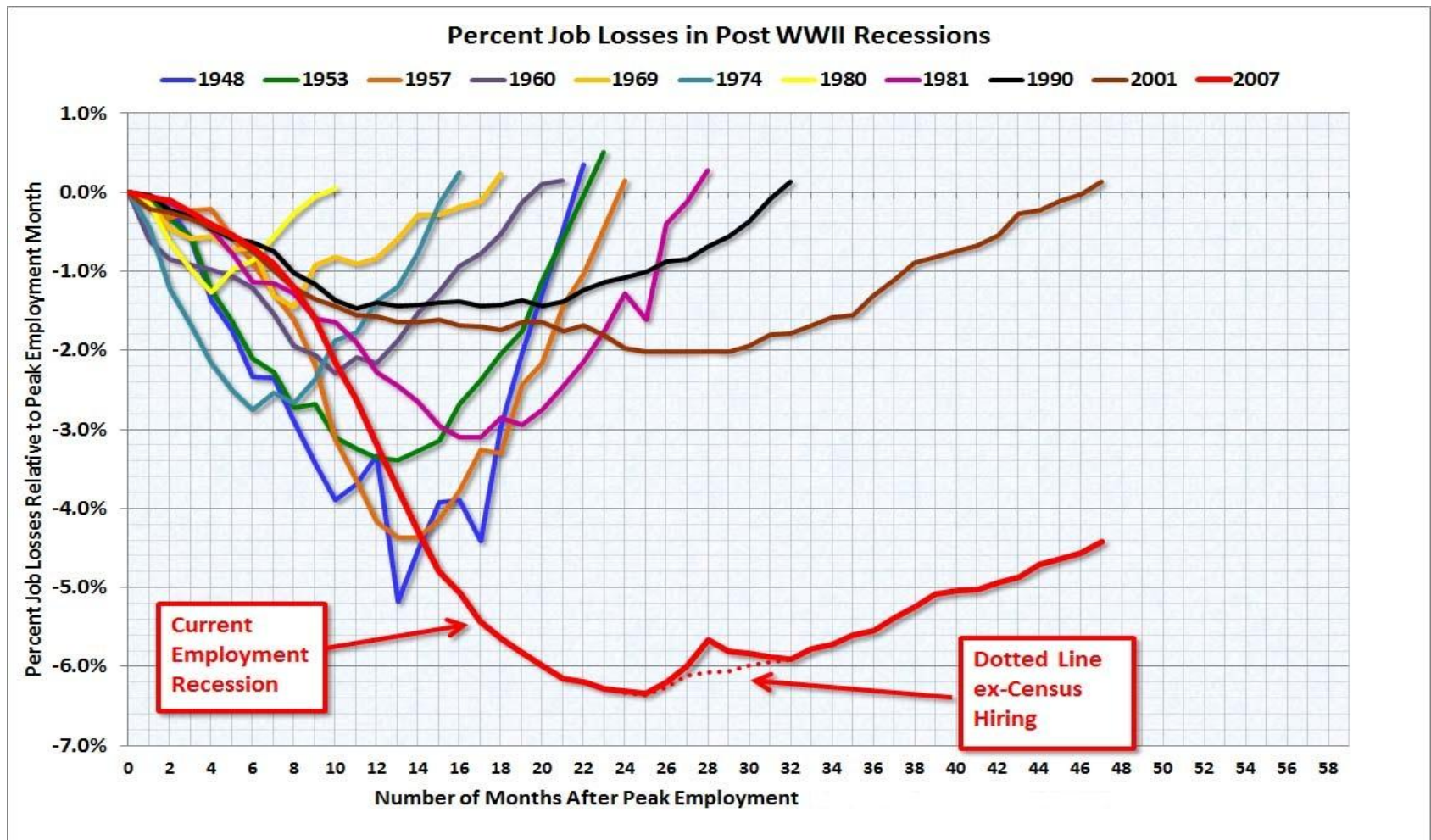


# CURRENT BUDGET ISSUES

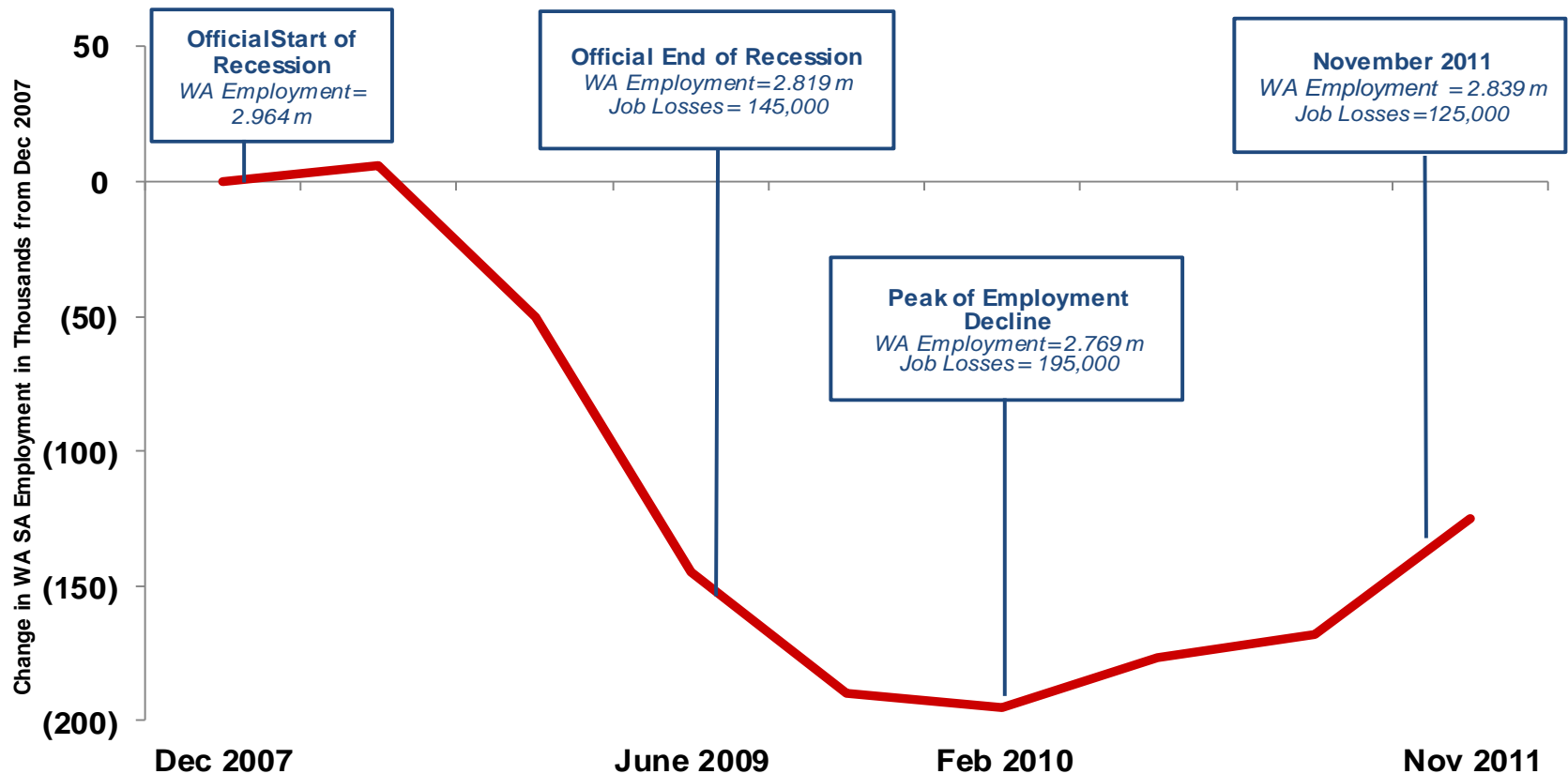
February 2012

# The fallout from the Great Recession has been severe

(This chart shows US jobs losses during every post WWII recession)

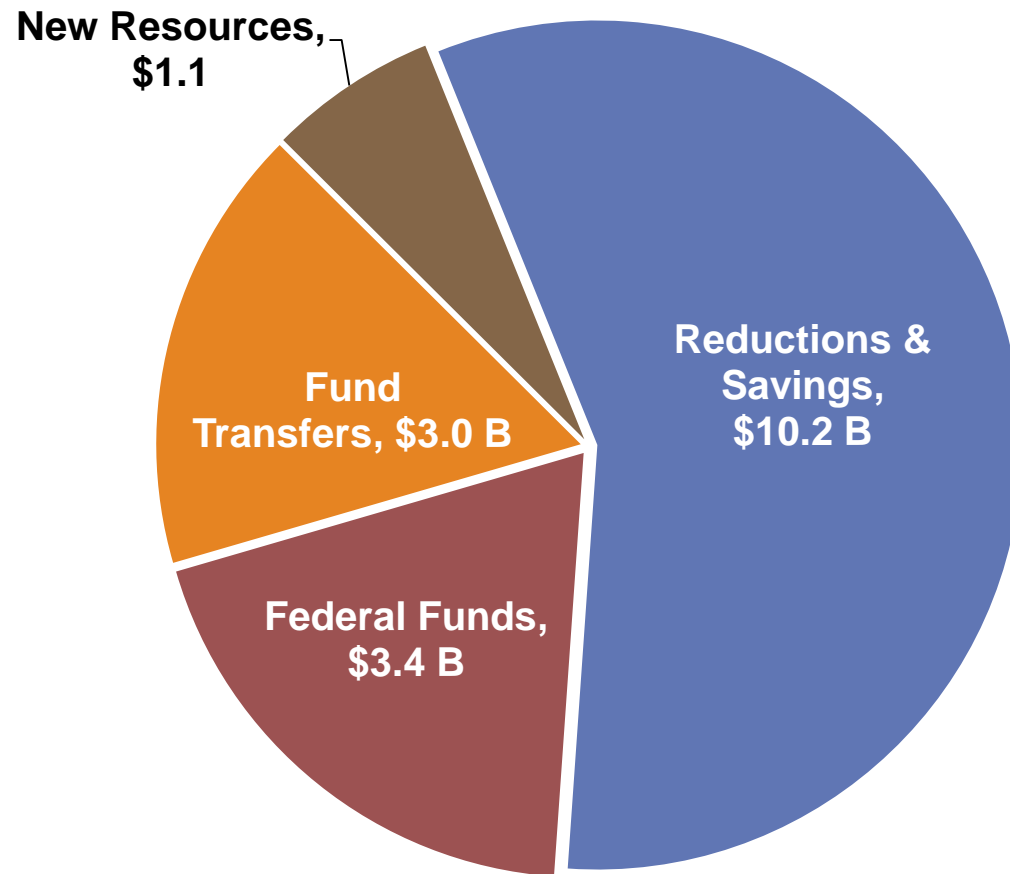


# In the recession, Washington state lost 195,000 jobs and has regained only about 70,000 so far



Source: Employment Security Department seasonally adjusted non-farm employment. Totals may differ slightly due to rounding.

# Over the last three legislative sessions, the Legislature has addressed an \$18 billion five year budget problem with \$10 billion in reductions and other actions



**FY 2009-FY 2013 Budget Solution = \$17.8 Billion**

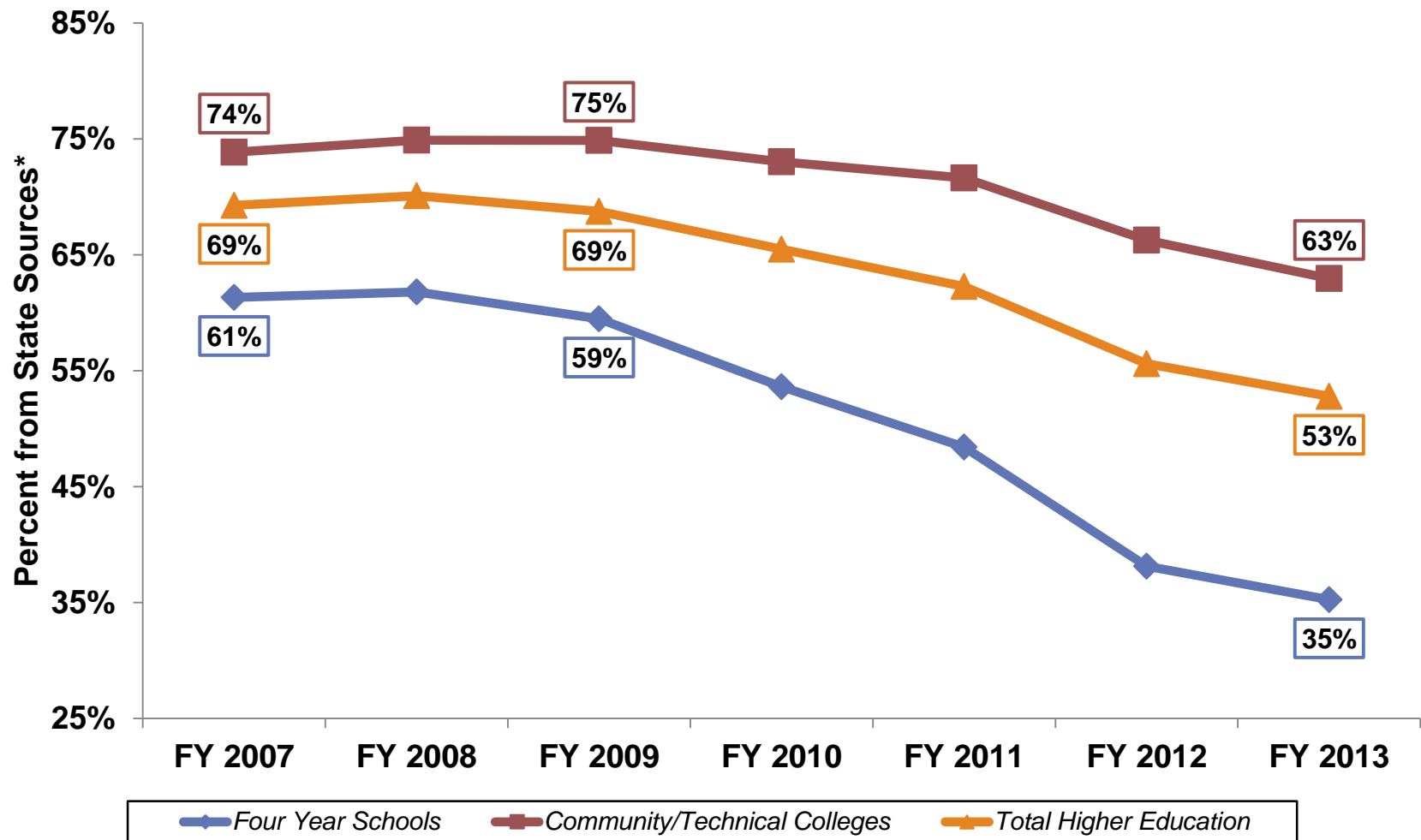
\* The amounts depicted generally reflect estimated amounts in the legislative session that they were enacted. Due to interactions, some duplication of particular reductions, and other factors, the actual amounts are likely to be different.



# Impacts of Recent Budget Reductions

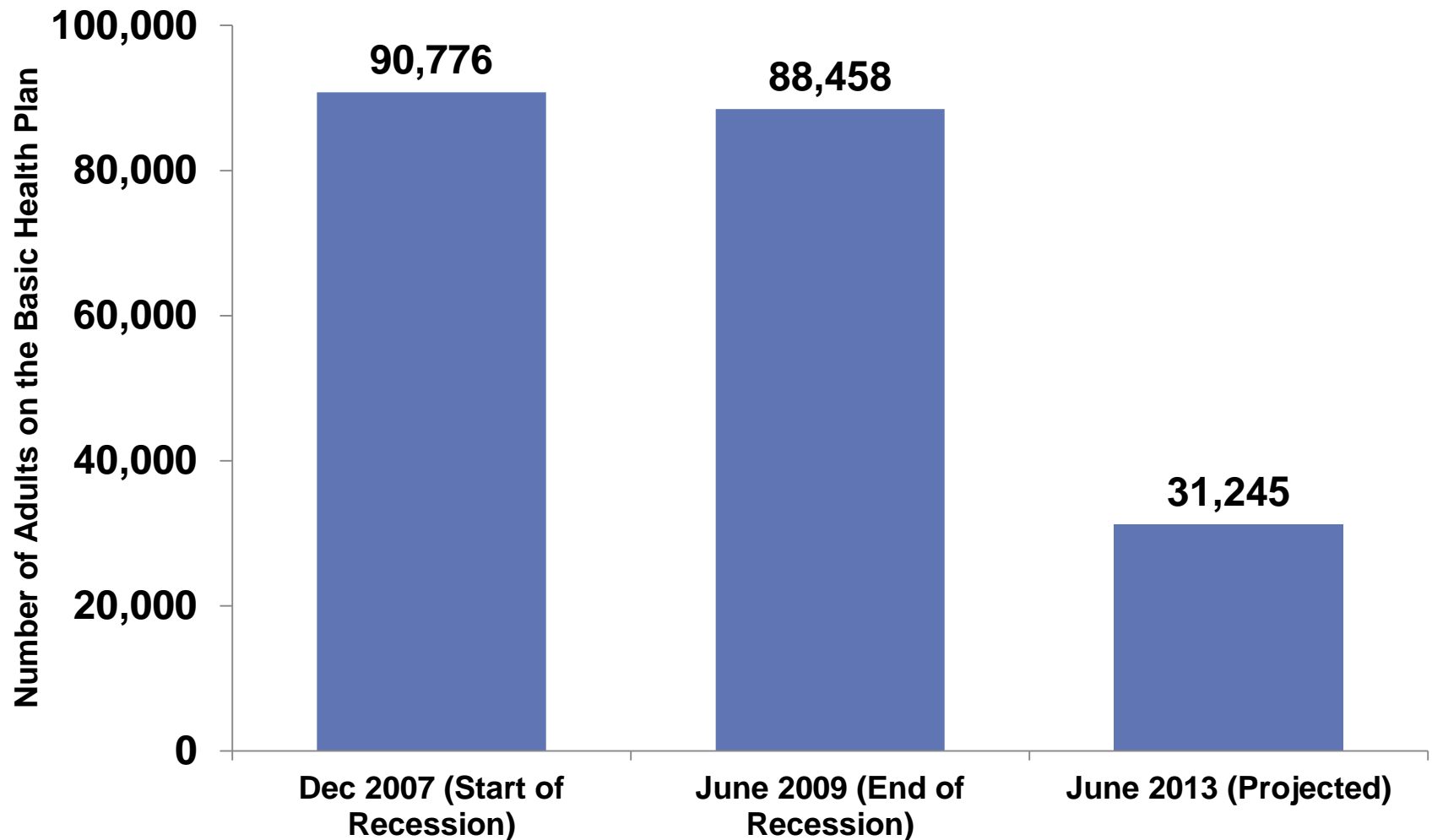
## Selected Examples

# Due to budget cuts, the state support of the higher education system has declined, particularly for the 4-year universities

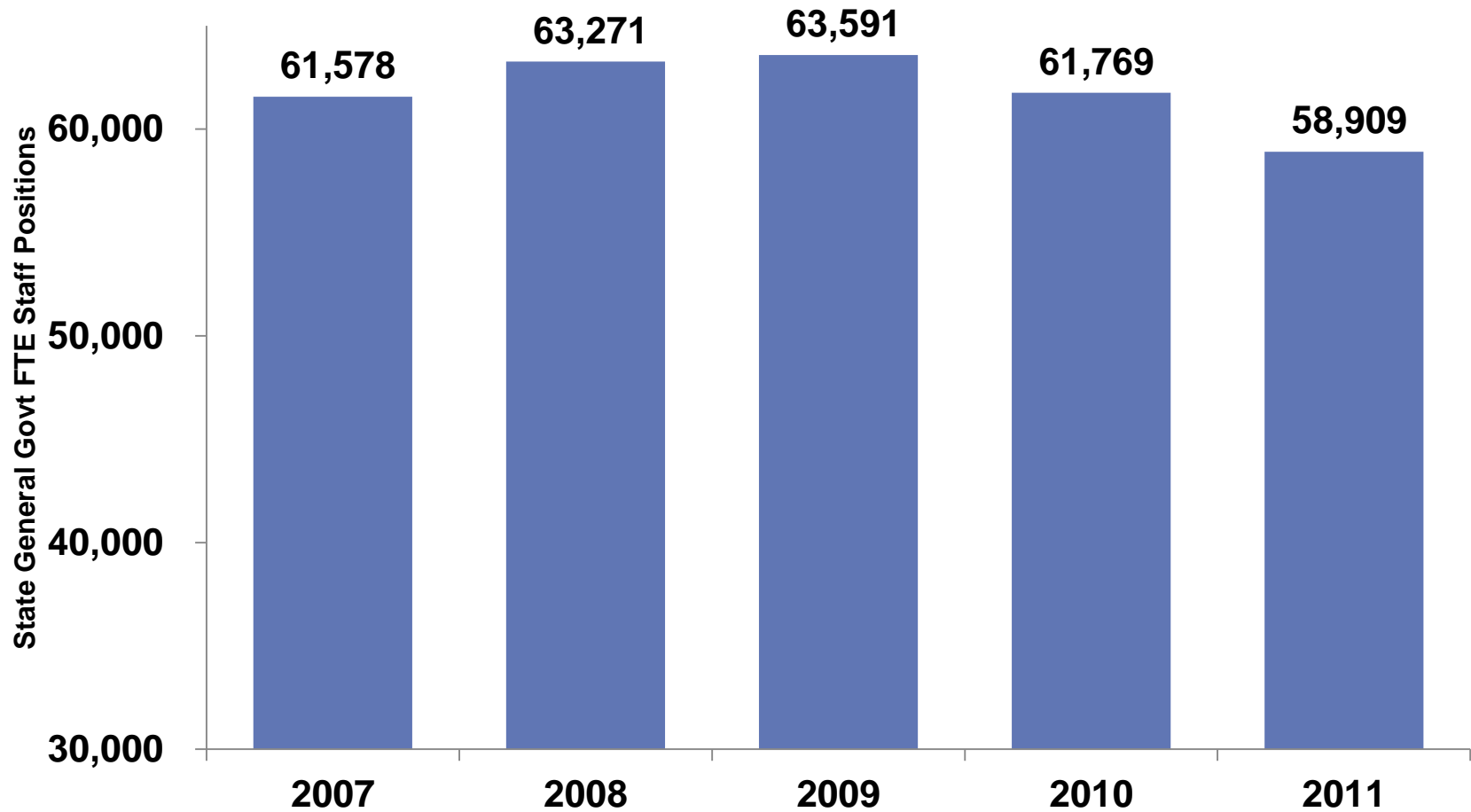


\* Reflects state share of state funds + tuition base. State funds includes Near G F-State, federal stimulus, Opportunity Pathways Account, and Opportunity Express Account

# 60,000 adults will have been removed from the Basic Health Plan by the end of the biennium



# The state workforce in 2011 was 4,700 staff positions small than for fiscal year 2009 levels (and in fact is lower than it was back in 2007)



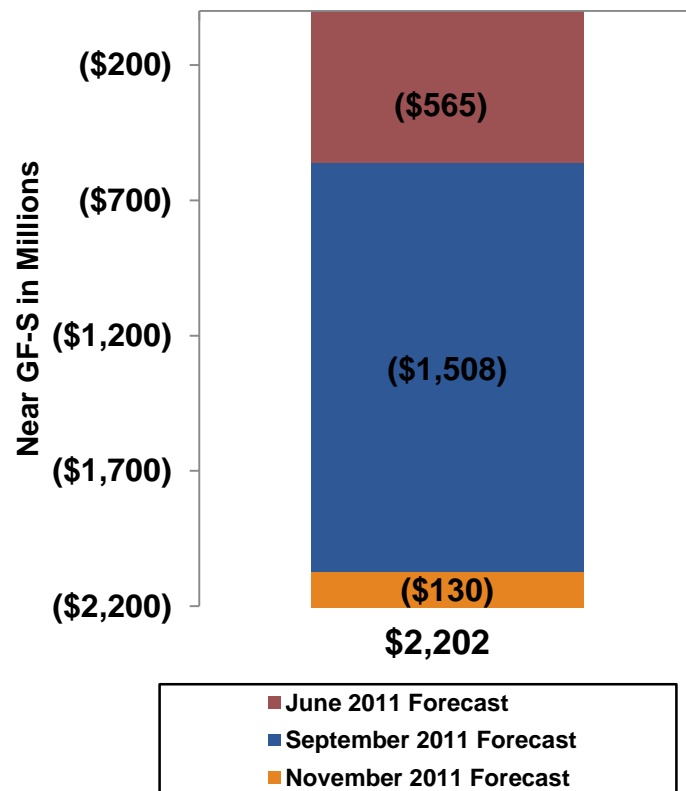
\* Reflects general government full time equivalent staff. Excludes higher education and K-12 staff.



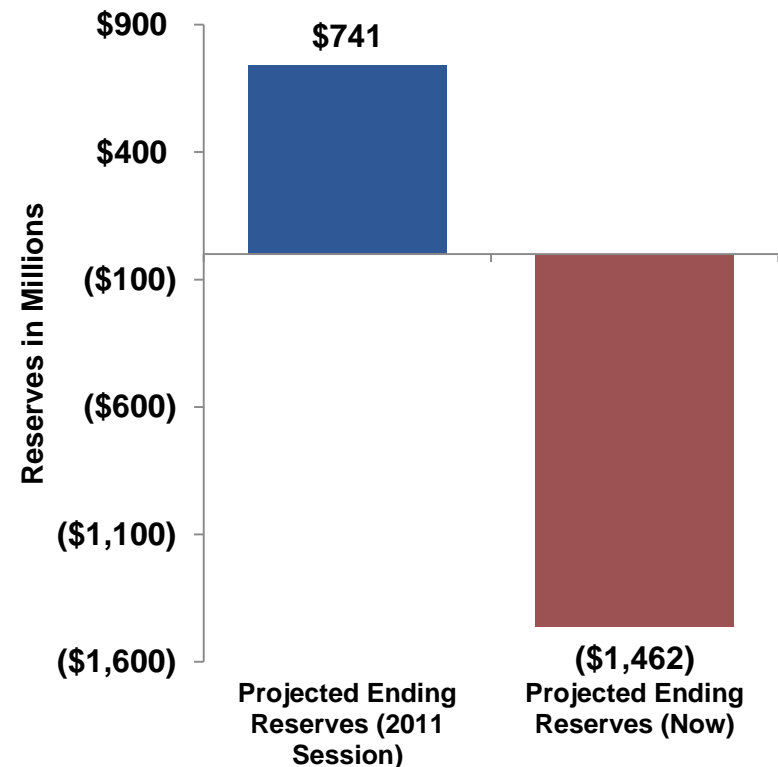
# Between June and November of 2011, projected revenues were reduced by more than \$2 billion.

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### Change in Projected Revenue Since Session

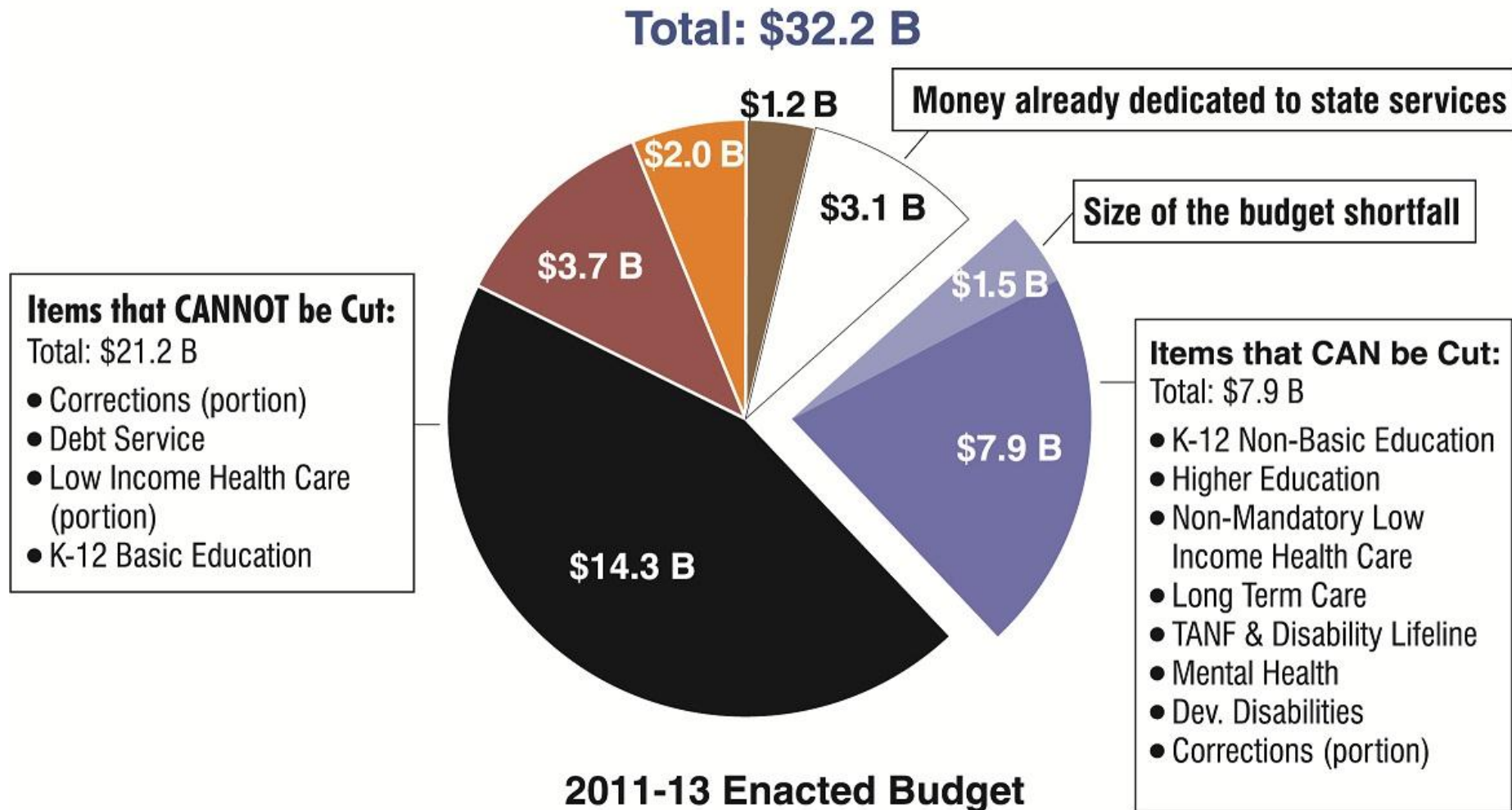


### Estimated 2011-13 Biennium Reserves (Including Budget Stabilization Account)



\* Including approximately \$280 million of Budget Stabilization Account.

# Of the 2011-13 operating budget as passed, over half cannot be cut due to legal protections

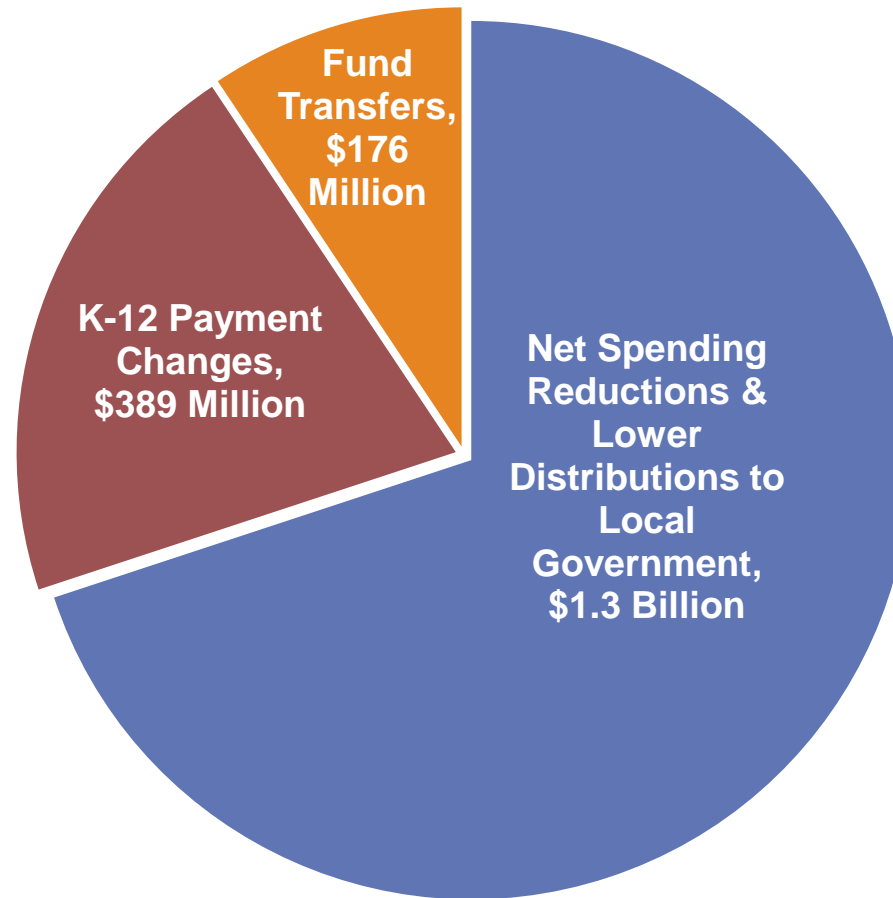


# The Governor's Proposal

*The “Book 1” Budget*

# The Governor's “book 1” budget makes approximately \$1.3 billion in net policy level reductions

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**Total Budget Solution = \$1.9 Billion**

\* Part of the Governor's net spending reductions are appropriations to address fund balance problems in other funds, if you exclude these items, the net spending reductions are approximately \$68 million higher.

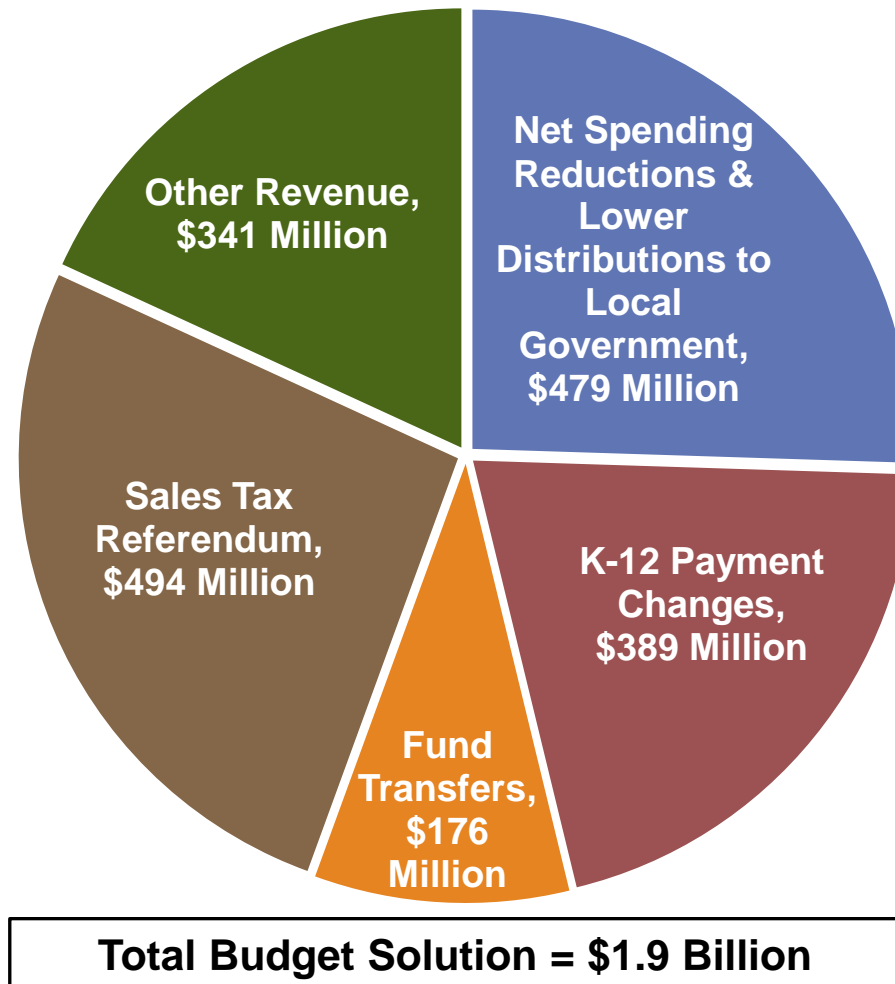
13

# The Governor's Proposal

*The “Book 2” Budget*

# The Governor's “Book 2” budget assumes passage of a sales tax referendum and a package of other revenue items that would be voted on by the Legislature

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*\* Part of the Governor's net spending reductions are appropriations to address fund balance problems in other funds, if you exclude these items, the net spending reductions are approximately \$68 million higher.*

# Governor's Sales & Use Tax Referendum Proposal

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## Overview

- *Submit a referendum to the people to impose a temporary (three year) .5% increase in the sales and use tax.*
- *If approved, it is expected to generate \$494 million in revenue during the remainder of the biennium.*
- *Referendum would include a specific “buyback” list.*

## **Preliminary Sales & Use Tax Referendum BuyBack List**

*(Dollars in Millions)*

<u>Item</u>	<u>Near GF-S</u>
<i>Higher Education Reductions</i>	<i>\$160.1</i>
<i>Reduction to Levy Equalization</i>	<i>151.9</i>
<i>Reducing 4 School Days</i>	<i>99.2</i>
<i>Community Supervision Changes</i>	<i>27.1</i>
<i>150-Day Release Offenders Early</i>	<i>14.2</i>
<i>Reducing Home Care Agency Provider Rates</i>	<i>8.8</i>
<i>Suspending DD Individual and Family Services</i>	<i>8.4</i>
<i>Change DD &amp; LTC Eligibility Requirements</i>	<i>8.3</i>
<i>Reform DD Medicaid Waivers</i>	<i>6.3</i>
<i>Eliminate Adult Day Health</i>	<i>4.1</i>
<i>Reduce Senior Citizen Services Act</i>	<i>1.6</i>
<b>Total Sales &amp; Use Tax Buyback</b>	<b>\$490.0</b>

\* This is based on preliminary information, the Governor's actual “buyback” list might be slightly different.

# Governor's Other Revenue Recommendations

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## **2/3<sup>rd</sup> Vote Requirement Options - \$282 million in FY 2013**

- ❑ Increase B&O tax on windfall oil profits (\$131 million in FY 2013)
- ❑ Increase B&O tax on windfall financial profits (\$54 million in FY 2013)
- ❑ Repeal non-resident sales tax exemption (\$23 million in FY 2013)
- ❑ Limit first interest mortgage deduction to banks located in 10 or fewer states (\$18 million in FY 2013)
- ❑ Impose a 5% luxury tax on motor vehicles over \$50K (\$14 million in FY 2013)
- ❑ Impose a 1.5% gross receipts tax on gambling and lottery winning (\$13 million in FY 2013)
- ❑ Increase cigarette tax by .25 per pack (\$12 million in FY 2013)
- ❑ Increase utility tax on DD supported living facilities for additional Medicaid (\$12 million in FY 2013).
- ❑ Other changes (\$4.5 million in FY 2013)

## **Simple Majority Vote Options - \$59 Million in FY 2013**

- ❑ Convert unclaimed property upon receipt rather than after three years (\$51 million in FY 2013).
- ❑ Other changes (\$8 million in FY 2013)

## **Use of Revenues**

- ❑ Governor's proposal suggests using the additional revenue to buyback additional reductions, primarily in human services.



# Special Session

- In a special session that began Nov. 28, we made a substantial down payment against the overall budget problem, closing the gap by **\$500 million dollars**.
- This is an important step in writing a budget, and it was taken in a bipartisan fashion with overwhelming support.
- Looking forward, we must chart a responsible course, one that meets our constitutional obligations to our kids, our moral responsibility to our most vulnerable citizens and our economic imperative to get people back to work.



The regular session so far

# Following a strategic jobs plan

**Workforce** – Ensure Washingtonians have the skills they need to find jobs and our businesses can find the employees they need.

Bills passed in the Senate include increasing aerospace training opportunities, helping people start their own small businesses, and helping both employers and employees invest and save for future training.



**Infrastructure** – \$1 billion proposal would create about 25,000 jobs building projects that will help our economy over the long term, like college training facilities, port infrastructure and storm water facilities that allow cities to grow. This can be done without new taxes or adding to the state's general obligation debt.



**Entrepreneurship** – Constantly working to improve Washington's business climate and competitiveness.

Bills passed include supporting partnerships with the private sector to promote research in new, marketable technology and products, and supporting the Office of Regulatory assistance in its mission to help local businesses navigate state permitting processes.



# Reforming government

In December, Senate Democrats targeted reforms that would better deliver government services at a lower cost to the citizens of Washington.

As of cutoff, 28 of the reform bills originally targeted are continuing to move through the process. If all bill pass, savings are estimated at approximately \$40 million for this biennium and at least \$250 million over the next five years.

The reform agenda targets all areas of government including job creation, economic development, fraud prevention, corrections, transportation, education, the environment and human services.



**Reforms**  
**28 bills = estimated \$40 million in savings**

# Targeting and preventing fraud

The Senate continues to aggressively pursue ways to combat fraud. Below are recent bills targeting Medicaid fraud, false state benefit claims and identity theft.

**Target: Medicaid fraud.** The state spends \$8.5 billion on Medicaid each year. Research indicates that 3-to-10 percent of that is spent on fraudulent claims.

**SB 5978** provides incentives and whistleblower protections to citizens, including employees, who witness Medicaid fraud in the workplace.

**SB 6227** establishes a toll-free telephone hotline, enabling the public to report suspected Medicaid fraud as it happens.

**Target: Identity theft, false benefit claims**

**SB 6150** directs DOL to use a facial recognition matching system for all driver's licenses, permits and identicards to identify applicants registered under one or more other identities. This will block the issuance of a new card and stem the abuse of tax dollars by people who use false identities to file for state benefits.



# Continuing education reform

**Funding Basic Education:** In recognition of the recent McCleary Supreme Court decision, our budget process is focused on making progress toward fulfilling our constitutional obligation to fully fund basic education.

## Enhancing teacher evaluations

The Senate passed a bipartisan bill advancing the statewide implementation of a four-tiered K-12 teacher evaluation system, replacing the old “satisfactory/unsatisfactory” system.

SB 5895 is part of an on-going effort to improve the current evaluation system by 2015, built around pilot programs already underway statewide.

The bill moves the current evaluation system forward to help students succeed while also protecting the due process rights of teachers and ensuring their professional development opportunities.



# Combating human trafficking

## What is human trafficking?

Human trafficking includes the recruitment, harboring, transportation, provision or obtaining of a person for labor, sex, organ transplants or services through the use of force, fraud, or coercion for the purpose of subjection to involuntary servitude, debt, bondage or slavery.

## Why should WA focus on eliminating human trafficking?

Human trafficking is one of the fastest-growing criminal activities in the world, according to the United Nations, a market worth an estimated \$32 billion.

## What is WA doing this session to combat human trafficking?

The Senate passed 10 bipartisan bills to combat human trafficking, including legislation to keep minors from being exploited through online ads for escort services such as Backpage.com.





# Washington makes history

**On February 13, SB 6239 becomes law, allowing gay and lesbian couples to marry**

## **The facts:**

Washington became the seventh state, in addition to the District of Columbia, to allow committed gay and lesbian couples to marry.

This law affects civil marriage only.

No religion or church will be forced to marry same-sex couples if it is against their beliefs.

Nor will they be held legally liable for refusing to marry gay and lesbian couples.

The law is scheduled to take effect June 7, but a referendum has already been filed against it. If supporters of the referendum are able to turn in enough valid signatures before the law takes effect, SB 6239 will be suspended and will be considered by the voters on the November ballot.





# A stabilizing budget forecast

- The Feb. 16 forecast increased the state's expected revenue by **\$96 million for this budget** – \$45 million in increased tax revenues, and \$51 million from the changes made in the December special session.
- **We now face an \$855 million deficit** for this biennium, plus the need to put some money in reserve.
- That shortfall does not include a drop in the expected demand for state services of approximately \$340 million – another bit of good budget news.
- And it does not consider the impact of Congress extending the payroll tax break or extending unemployment benefits, which the state forecaster expects will increase revenues by another \$50 - \$75 million.
- The risks to our economy and our budget remain high, but this is the first stable forecast in quite some time.